October 29, 2003 minutes

CONVENE MEETING

Chair Naille opened the meeting at 8:30 am. He expressed regret that Bill Norman will be leaving the Board and thanked him for his great work.

Board Member Norman thanked the Board, stating how extraordinarily impressed he is by the dedication and sincere convictions of many people in the National Parks Service and what a great learning experience it has been for him to be on the board. He also mentioned his hope of a heightened appreciation at both the Secretary and Director's level as to the importance of concessions for the Park Service as well as the importance of National Park's being preserved and accessible for future generations. He mentioned the need to ensure better guidelines, guidance and more emphasis on better practices in terms of the overall Park Service governance that will allow them to operate with a higher degree of consistency and accountability. It has to have the systems, technology and guidance to do this more efficiently. He commended the Board for their service to their country.

Report pm Status of Advisory Board Work Groups.

Board Member Sakiestewa mentioned the public visitor at the Yellowstone meeting from the Rosen Group who does the craft shows. The group does a publication that represents individual artists in the craft shows. Board member Sakiestewa put together a binder for the Board to review. She articulated one of the criticisms of the Rosen Group, which was that there were items in the shops in Yellowstone that were mass produced. There are individual artists who do mass production in order to have the inventory for a large venue, yet there is a great interest by the Board and many of the parks to have one-of-a-kind regional hand crafts. Board member Sakiestewa put together a list of experienced people to rethink some more user friendly guidelines and better incentives for concessioners, than are currently in place that can then be presented to the Board. She believed it requires separate tracking with two different bookkeeping systems.

Board member Linford explained the change in commercial use authorization. The CUA's, which are commercial use allocations, are taking the place of the old IBP's or incidental business permits. This is for people who either do business or operate both inside and outside the Park, such as bus tour operators, or for those who do business inside the Park grossing less than $25,000 a year. The new law created a new category called the commercial use allocation which are now codified. One of the critical differences is that the new law gives a supervisor the power to limit the number of CUA’s in the park.

Ms. Fleming stated that commercial bus tours were probably going to be put under commercial use authorizations because there is a concern about their fee structure which is somewhat outside the proposed rule. Thus there is a work group that is being put together to look at this problem.

Board Member Linford mentioned the people that would be influenced by this such as, Outward Bound, National Outdoor Leadership School, the Sierra Club, Backroads Bicycle, the Alaskan professional hunters and the Alaskan bush pilots as well as the little operators. Some of these may hit several national parks and will have to operate under CUA’s in each national park. These groups are concerned because now these permits can be limited and would be issued on a random selection basis. The CUA’s would be limited to two years and there would be no preference every renewal. The committee met in Washington in April with all the interested parties and broke into three subgroups to come back at a later meeting with some recommendations, and the subgroups were one dealing with fees, one dealing with the administration of the permits and one on the limitations issue of the permits.

_ fees should be consolidated. The law speaks in terms of cost recovery in fees.

-The parties concerned wanted prior experience to be a consideration on the reissuance of permits.

-It was also a major concern that companies who have invested in their business may not be able to get their permit renewed.

Ms. Orlando informed everyone that the final recommendations by these groups are due by mid-November, and from that point on the language draft revised proposed regulations will be drafted and published again in the Federal Register for comment. There is a process that kicks into place in terms of OMB review and departmental review. Hopefully the Board will have another proposed rule out in the Federal Register by early spring for comment.

Board Member Linford commented that the system works well; hostility and venting from the parties concerned, transformed into a sense of cooperation in the workgroups. This was very apparent in the Seattle meeting.

Ms. Orlando brought up the concern that nonprofit organizations would be treated the same as profit organizations.

Mr. Oswald questioned if the regulation provided that the nonprofits would not be subject to a fee.

Board Member Linford clarified that it would apply to the nonprofits who are not reporting a taxable income and if they derive a taxable income they would have to go through the regular process.

Chair Naille questioned how the issues brought up in the meetings have been dealt with. Mr. Ring explained that there is an interagency fee council that is made up of different departments that are involved in public lands and fee programs that are looking at consistent policies on the whole fee program across the federal government, including the Forest Service, the Corps of Engineers and several agencies within the Department of the Interior including BLM, Park Service, Fish and Wildlife Service. He explained that Senator Thomas has introduced a fee bill for a permanent fee program authority for the Park Service only, which has done very well in the several years it has demonstrated authority. There has been a hearing on the Senate side that is not expected to move forward into permanent legislation. Therefore he believes the temporary fee authority will be extended through the appropriations bill giving room for a healthy discussion on how permanent the authority should be handled. All fees that are charged come in through the parks to the region and have to be proposed and approved at the Washington level. It was indicated to the tour bus industry that any change in time fees that are going to affect them would have a one-year lead time. Staff is working on issues on how to make it better. There will be a project manager in Washington working on issues to make the plan better and coordinating with Ms. Orlando's office. He mentioned the issue of consolidating a number of fees that are charged in different areas of the park.

The interagency fee council will be looking at where people go from a park to BLM land to a forest to a core property, and if there is consistency and consolidation regarding how the fees are handled. Mr. Ring also clarified that by mutual agreement between the Department of the Interior policy management, the Assistant Secretary and the assistant secretary over the U.S. Forest Service, are the ones who coordinate the meetings.

Board Member Linford reiterated that the fee layering can cost people a lot of money if they move from, for example, BLM land to Forest Service land to Park Service land in one day, each one charging $3, then the user day fees go up to $9 a day per person. In addition, people want a simple application process, especially for the incidental people. Because if the process is not easy and cheap it will discourage them to even get a CUA.

Mr. Ring stated that the agencies on the fee council are committed to examining the issues. Furthermore, the public visitor research that the Park Service has done has indicated that the large majority of the visiting public prefers to see the fees broken down as opposed to being consolidated where they can see they have a choice of paying a fee or not paying a fee piece by piece rather than paying everything at the gate. In contrast the business community sees it just the opposite. It will take a bit of examination to structure a system that will accommodate these two interests. Staff is looking at the economic impact of all the fees versus the convenience of reducing so many transactions. He suggested a voucher system where one could add up the fees that could be paid versus what the economic impact of paying $3 every time you move from one place would be.

Chair Naille queried if there is going to be an interagency overall fee program at some point in the future.

Mr. Ring thought there was a desire to see some kind of permanent legislation although he was unsure what the outlook was. In addition, he felt that there is a commitment to coordinating the agency programs through the interagency fee council. Furthermore, he clarified a question posed by Chair Naille, that if everyone on a tour bus has national park passes or golden eagles, the fee charged to the tour bus to get into the park should be minimal.

Board Member Voorhees asked specifically how to treat a bush pilot in Alaska for example, whose business is based substantially on activity inside a park. Would that bush pilot be operating under a CUA if his gross collected from that activity is less than $25,000?

Board Member Linford explained that would not be the case because the flight begins outside the park and lands back outside the park again.

Mr. Apgar gave an example of air taxis who often take people from one point to another inside the park; according to the rules they are not allowed to get collect payment on the ground or solicit customers on park land. Therefor it does pose problem for them when they never leave the park.

Mr. Ring explained that not all operations fall under exactly the same circumstances and must be looked at separately so whether they are a CUA or a concession authorization is determined by a number of different factors. The CUA is intended for folks that have no presence or no transactions going on in the park, they have no exclusive assignment of park land or facility, their activity starts and ends outside the park.

Board Member Voorhees asked about the Alaskans seeking an exemption, legislatively.

Ms. Orlando discussed how the Alaskans are concerned about the two year limitation and have voiced interest in contacting their delegation. There needs to be some kind of business certainty so pilots can invest in an airplane without being worried that they will only be able to operate year by year.

Mr. Apgar added that the two-year limit is not a particularly Alaskan issue and he can’t see a reason why there would be a different term in Alaska than there would be any other state.

Mr. Ring reiterated that the two-year issue is paramount for businesses making investments in expensive equipment such as boats and planes.

In addition, both the air operator and the ferry operations have been authorized under commercial use authorizations in previous years. Even though they started and ended outside the park, they also had to manage the use inside the park. After going through a commercial services planning process those operations were converted to concessions.

Board Member Linford thought that the Service could not do anything about the two-year contract because it is codified and in the law.

Mr. Ring added that if the law constrains the Board on the CUA’s to doing two-year authorizations, the Board does have some discretion to look at factors that may take an operation out of a CUA and make it a concession contract.

Mr. Apgar mentioned that the Alaska issue was largely due to a misunderstanding of what the draft regulations really required. People thought there was a $25,000 cap on the amount of business they could do and most of their concerns were taken care of when the draft regulations were adequately explained to them.

Mr. Ring voiced his appreciation for the workgroups and the Board’s involvement in this effort to make sensible regulations and making sure that people who are affected understand and have their concerns settled.

Board Member Linford mentioned other recommendations including that the process by which CUA’s would be limited in a particular park should be a public process rather than just at the discretion of the supervisor. In addition, the draft regulations had language that affected the supervisor and could cancel a CUA without liability, and everybody at the committee felt that there should be some sort of appeal process to that.

Ms. Orlando clarified that the Board is going to follow up with the idea of creating a process for people to go from a CUA to a concession.

Ms. Poole mentioned that they are currently awarding a concession contract for a seaplane that was an IBP and now will become a ten-year concession contract.

Mr. Ring expressed concern whether all of the right criteria was being examined in order to make the judgment of changing an IBP to a concession contract.

Chair Naille mentioned that the discussion with Dr. Eyster will be postponed until after the break. He proceeded to read the annual report from last year for the record. It read as follows:

"Cooperative associations are typically nonprofit organizations that are responsible for providing park visitors with educational and interpretive merchandise, while park concessioners provide a wide array of commercial goods and services aimed broadly at visitor convenience. Each type of service provider helps the National Park Service improve the experience of park visitors, but the agency should clarify their role is to reduce a counterproductive overlap. Communication between the Washington level managers of the concession program and the cooperative association program should be improved to ensure more consistent guidance. Different associate and deputy directors oversee the two programs, making active efforts at senior level communication even more essential. Despite their different mission and their nonprofit status, cooperative associations should be held to similar rigorous standards in reporting their revenues and activities as concessionaires. Finally, the Washington level managers of the concession and cooperative association programs should provide clear guidance regarding the division of retail responsibilities between the two types of service provider. By specifying the type of retail items that cooperative associations may provide and the types of items that are the sole province of concessionaires, program managers may help avoid undesirable confusion and redundancy. Any changes to the rules governing concessions and cooperative associations should take into account the operational needs of service providers, but must be designed to promote the optimal balance of services to park visitors. The expiration in late 2003 of Director's Order 32 which governs the operations of the cooperative associations provides the National Park Service an opportunity to clarify existing guidance."

Chair Naille stated he intends to submit this but probably not in this year's report. He also mentioned that public comment period will be discussed when the Board talks about LSI.

Concessions Advisory Board

Board Member Eyster proceeded to highlight the major points of the working paper. He mentioned that the working groups met in one brief meeting with Kurt Cornelssen, Crage, from Delaware North, Welch from Xanterra and Board member Eyster as well as one lengthy meeting on August 12th with Cindy Orlando, Cornelssen, Hardigg, Crage and Welch. These meetings took place after the Yellowstone session where they discussed a preferred approach for handling LSI.

*The groups attempted to use a business approach to tackle the issues.

*A major concern for the Park Service is the fact that LSI is in debt. Funds are borrowed from concessioners for which the Park Service is obligated to give the concessioner a reasonable rate of return as would any other lender. One of the problems is that LSI's obligation or debt is a fairly high cost of capital, so there needs to be some flexibility of being able to manage the LSI levels. LSI will always be around because anything that is moved forward, CFIP's or any other major investment, is expected to be funded with concessioner funding.

* What is being discussed will involve projects and contracts

going forward; nothing is going to be retroactive that is going to impact the contract that is presently in existence. So those who have LSI are pretty protected with their situation, but there was a desire to take a step now and move forward with all of these contracts that in effect are going to be negotiated shortly.

Looking at page two of the working report the major areas of points are as follows:

Cross-Collateralization, one of the issues raised by concessioners at the last meeting. A major concern was getting approval for using a portfolio financing approach to help reduce the concessioners' cost of capital. The agency's concern is ensuring that capital structure remains sound and reasonable, that it is not over-leveraged. The proposed solution was an amendment of existing regulations, not a change but an amendment. The concessioner that holds two or more concession contracts may pledge the contracts and related rights to secure a single loan transaction, which basically allows them to cross-collateralize their investments for additional loans.

Concerns arose regarding what level the Park Service should be involved in reviewing and approving a prospective sale and transfer, and the committee did not see a need for an amendment of a regulation, but just clarification.

The LSI Crediting and Depreciation addresses reduced management burdens, and some of the fiscal responsibilities for both the Agency and the concessioner with a caveat regarding a fair return for both parties as much as possible. This leaves two major issues included when does a concessioner get credit for LSI, and how does one depreciate LSI.

Out of the four proposals presented at the Yellowstone meeting, it was unanimously agreed that the working group should focus on the third proposal. This proposal states that crediting would be granted to concessioners if they were the ones providing the funding. If the Park Service were providing the funding, there would be no LSI crediting. So who ever puts the money up at the table is where the credit would originate from, and then a physical schedule depreciation should be used rather than GAAP depreciation.

No LSI credit is given for routine maintenance activities paid for out of the repairs and maintenance line item on the operating budget, and no LSI credit is granted for expenditures from the maintenance reserve account or government reserve accounts. These accounts are budgeted each year. The routine maintenance account, which is the general R&M accounts is for ongoing maintenance, and the reserve accounts are for renewal of assets. If an asset is replaced, or renewed, it would come out of that budget, so there would be no LSI granted. With the reserve accounts, some of that money can accumulate and then be spent as needed for repairs, replacement, etc.

The LSI Granting is a credit granted for emergency or extraordinary expense not covered in either the maintenance reserve or the maintenance expense accounts, assuming that it is funded by the concessioner. If Park Service is out of those monies and wishes not to appropriate additional funds of its own, and those funds are provided then by the concessioner, the concessioner would get LSI credit for that as well as credit for any concession facilities improvement program projects, which is traditionally how things have been handled.

Page 4 lays out the proposed definition of terms and financial perimeters which include:

*Repairs and Maintenance Expense as a “1", that would be the first category of expenditures on the physical plan and personal items. There are two types of maintenance,

1) The Operational Maintenance

2) The Preventative Maintenance.

those items will be funded out of the Repairs and Maintenance Expenses on the Annual Operating Budgets. These do not include any replacement items.

* The Maintenance Reserve Account, itemized as “2", is set up

for “Renewal” and “Replacement.” Maintenance reserve funds are intended for use in component and asset renewal. If there is an item already in place that is being renewed or replaced, that would come out of the Maintenance Reserve Account. If there is a new item added that is in addition to anything that is already there, that would be a capital improvement or a capital addition. So if a carpet is pulled up and a new one is put back down, that is out of the reserve account.

* The CFIP’s, itemized as “3,” would include new construction or substantial rehabilitation. These projects will be described in the prospectus. LSI would be granted for all real property expenses for a CFIP; this can involve new construction, major renovation, or deferred maintenance. If there is a significant amount of deferred maintenance that has to be funded, we want it funded at the beginning of the term of a new contract, or at least within the first year or two. Monies provided by the new concessioner for that deferred maintenance, even though it is a “maintenance item” will be treated as a capital item. This would be spelled out in a prospectus, as well as at the signing of the contract. In addition to the dollar amount, it would also show a feed-in or lead time as to when those funds would be coming in because they may not be required to be paid in the first year or at time zero. It may come in over two or three years,

and that would be spelled out in the prospectus also.

* The item marked “4A,” is Unforeseen Expenditures and is considered to be ‘emergency’ items that occur unexpectedly and must be addressed as soon as possible.

*Item “4B,” is Unplanned Expenditure which are projects that might be suggested by the concessioner as an improvement in service, but are not emergencies and are not included in the concession contract as a required project. If the projects are funded by concessioner dollars, LSI could be granted; however, alternative funding of sources was discussed, for example if concessioners provided the funds, they could have a reduction in the franchise fee which would be repayment of those funds.

* Unforeseen Maintenance is planned to be taken from the Repairs and Maintenance Account. If it runs over where those funds are, we may request that the concessioner fund that, in which case the concessioner would be granted LSI credit.

* Crediting and depreciating of Leasehold Surrender Interests.

There was a discussion regarding the Park Service’s authority to create a special fund if it was a government project using federal funds to do an investment in light of the new law that states that capital accounts were explicitly forbidden.

Chair Naille added that the government cannot create a new capital account, but if the government feels that some project should be done, and it falls into the other category where it id funded by the concessioner, they get LSI credit. Furthermore, Mr. Cornelssen thought the Park Service does have the ability to, for example take 80 percent and set it aside for unplanned events or projects.

* There are two types of Replacements, Reserve for Replacement account and Unforeseen Replacements, funded out of the maintenance reserve. If funds are not available, then the service must examine if the Repair and Maintenance was Appropriately Funded and executed as per the contract. If funds are available, we would look at and are suggesting a creation of an unforeseen real property reserve, a new escrow account that would be more tightly disciplined. It does not have to be a separate reserve, but it could enable us to use the maintenance reserve with a slightly higher percentage of gross revenues.

Mr. Cornelssen clarified that the working group all agreed that it would be the owner’s reserve account that sits within the contract and if it is not used by the concessioner when the contract is up, they keep it, while maintenance reserve money is essentially foregone fees. In addition, Ms. Jones further clarified that the higher the maintenance reserve, or the unforeseen reserve, the lower the franchise fee.

Mr. O’Connell had a concern about protecting the facilities in the event that a concessioner cashes out the maintenance deferral money, or there is no cash throughout the event of the contract, and a new concessioner steps in, and suddenly there is a hurricane.

Mr. Ring added that the unforeseen circumstances are normally the owner's responsibility, yet when an owner is caught up in a three-year funding cycle with budgets from Congress, often times they are not in a position to instantly put money on the table to handle what is normally an owner's event, which makes the idea of an unforeseen account make sense. He questioned if it made sense to co-mingle it with the maintenance reserve money vs. keep it as a separate fund.

Mr. Ring stated that if the money were held by the Park Service, there would need to be some understanding that the money was not to be obligated.

The heart of the issue is, if the money was held by the concessioner as an otherwise deferred franchise fee, then the question of whether it would pass from one contractor to another to deal with, for example, a hurricane, or whether it would revert back to the owner to be able to have in hand to deal with those kinds of events. As of yet the unforeseen account is not spelled out in the contract.

Mr. Cornelssen stated that there are two options; the money could be put in the Maintenance Reserve Account, the way the current rules work, reverting back to the concessioner, or it could be held in an 80 percent account that is earmarked specifically for unforeseeable reserve.

Mr. Cornelssen made a point that the concessionaire probably would not want to just get LSI if suddenly someone approaches and says, “I want you to make a million dollar investment.” In these expenses and accounts the Park Service is trying to predict the future, knowing it is going to be off, therefor the unforeseen reserve is a kind of that back-up.

Mr. Hardigg suggested creating a hold account with franchise fees to cover the unforeseen expenditures and Ms. Orlando suggested it be called the “Franchise Fee Account.” She mentioned that the Park Service will have to address some of the contract language.

Mr. Cornelssen articulate that the whole idea is to create as much of a closed loop system as we can so that the assets are well maintained and protected, that the visitors are well served.

Ms. Orlando pointed out that the maintenance reserve funds are government funds, and it is a matter of changing the language in the contract so the funds revert to the government and not the concessioner, then if the money is not spent it can carry over to the next concessioner. Mr. O’Connell agreed that the money belongs in the facility.

Board Member Eyster suggested that money allocated for the unforseen could be protected by an approval mechanism outside the park, it may need the super approval of Washington. It could be a two-step approval process.

Mr. Hardigg summed up the two issues, the first being, that if the Park Service goes the franchise fee route, perhaps there will not be tight enough fiscal control. The second is, by creating a special account and maintenance reserve account, the government may not have the ability to hold on to it when a contract transfers.

In response to Mr. Tedder's question, Mr. Cornelssen stated that through the process of development of the prospectus, there will be qualitative and quantitative information provided to the bidders. Qualitative would be industry standards in terms of maintenance, international property maintenance code, hospitality and industry standards, depending on the asset class. Once an asset is classified and one has maintenance standards for that class of asset, and an estimate in the prospectus of what that R&M would be. It does not mean it is required, it just says, "This is what we think it costs to properly maintain these assets based on these standards." Then subsequent to the contract award, there would be a discussion so that all have agreed on the appropriate amount to be spent on R&M which may have to get re-visited during the term of the contract.

Board Member Eyster continued to discuss Contractual Planned Projects, which would be in the Prospectus, the CFIP, where LSI would be granted. If funds are available for unplanned projects, LSI would be granted. If no funds are available, then there is the option of moving to an adjustable variable franchise fee, and I think this decision tree lays out the steps that the working group is recommending at this point in time on the movement of the granting of LSI.

In response to Ms. Jenning's question regarding insurance, Mr. Cornelssen stated that there are different types of emergencies. For example although insurance may pay a fire claim, they may not pay for a roof after a bad winter. Furthermore, Mr. Hardigg went on to say that the insurance money would be a recapitalization and would result in LSI. Mr. Cornelssen added that the concessioner is paid, but they have paid through their insurance policy and it was the Park Service that established a standard.

Mr. Hardigg clarified that a concessioner's LSI does not disappear if they use the 80 percent money for example, a roof project, that they do not get LSI for, when the building is an LSI building. Yet the concessioner needs to be able to predict what the ending value is of LSI so an unforeseen event should not result in them having LSI vanish.

Mr. Crage wondered if the money on an insurance policy held by a concessioner would qualify for LSI. Mr. Cornelssen responded that as long as both parties agreed to the standards of that policy.

Mr. Hardigg clarified that there was a mistake on page 10, item 3, regarding the Unplanned Projects under the LSI eligibility. The last sentence is incorrect.

Mr. O'Connell asked if the Superintendent of the local part is giving away some of the 80 percent because they get 80 percent locally as franchise fee, won't that be taking money away from the park?

Mr. Cornellsen responded that one of the concessioners in the working group brought up that there may be a visitor service that is needed half way through the contract that was unplanned, but is still a good thing for the park. The Superintendent agrees that it is good for his/her business, but it was not planned for in the beginning of the contract.

Mr. O'Connell offered that it is looked upon just like a business; if the financing works out and they decide to invest in it, they can get the LSI back.

Mr. O'Connell commented that these problems have arisen because of the new law and if there was such a thing as preferential right still, these would not be issues.

Mr. Tedder asked about Preventive Maintenance and if Routine Painting was cyclic or touch-up.

It was explained that if an entire expanse was painted it would be a reserve event. Mr. Cornelssen further explained that anything done within a three-year cycle is operational, but anything over that such as painting or sealing a roof, would be cyclic items, covered under the maintenance reserve.

In response to Mr. Tedder's question Mr. Cornelssen clarified that, by definition, anything that is a CFIP is major capital, and is called capital improvements, therefor items that are small will not be CFIP.

Board Member Eyster went on to say that the Park Service is trying to avoid the term capital improvements because one could argue that any replacement is a capital improvement and either call it a renewal, replacement, a major capital improvement, or a capital addition.

Board Member Norman expressed his support for option three, but also could see many advantages to option four.

Mr. Apgar was concerned about using the term *cyclic maintenance* because the Park Service Maintenance Management System has some very specific definitions about cyclic repair and rehab. Mr. Cornelssen responded that the Park Service is eliminating the term "cyclic" from the lexicon so there is no confusion.

Board Member Eyster stated that one of the issues concessioners have raised is whether the Park Service is going to eliminate LSI. The consensus of the group is no, because that is how major capital improvements are funded. LSI can then go up over time, or go down, or it can stay reasonably balanced. The process of valuing LSI from the beginning of the contracts to take the initial LSI and inflate it by the Consumer Price Index so it will grow a little bit, and then a reduction of that total growth by a depreciation schedule of some sort, which is hopefully going to measure physical depreciation to get us to the ending LSI. So the Park Service can start with a beginning LSI and have CFIP's and any kind of contribution made by the concessioner to capital projects with the increases in the LSI, and the annual and CPI increase, then there would be the annual depreciation decrease, and it would end up with the ending LSI. The process works because the Park Service is required to give the concessioner a reasonable and safe return on the invested capital. He spoke about the session on franchise fee analysis in Denver and how it was critical to generate a prospectus to project forward what initial LSI and CPI would be, and what additional CFIP's would be required, as well as what kind of depreciation schedule would be utilized and what Maintenance Reserve would be appropriate to keep the physical assets in reasonable shape to come up with an LSI which is the terminal value, both the concessioner and Park Service need to make investment decisions and to calculate what a reasonable franchise fee would be for that period of time. Those numbers are needed in order to anchor decisions that concessioners are going to make regarding bids on projects, and is needed for the Park Service to put a prospectus out on the contributions of CFIP, and what kind of funding is necessary.

Mr. Fay asked about the physical depreciation schedule and wondered if it would require appraising. Board Member Eyster responded that the Park Service will try to project what physical depreciation is going to be in order to develop a model so that both the concessioner can bid and the Park Service can reasonably establish franchise fees.

Mr. Cornelssen stated that the idea was based on an engineer's and architect's evaluation of useful lives of assets, and the physical depreciation schedule would reflect that, which is analogous to an accounting depreciation schedule. If that physical depreciation schedule changes dramatically because someone is not doing the maintenance, or they are maintaining it even better, then that would have to be addressed during the term of the contract. The idea is not to wait until the very end and have this major disconnect between the parties over what the value of the assets and what the depreciation was.

Board Member Eyster went on to say that the physical useful lives are significantly longer than the accounting useful lives. That is why the Park Service would be breaking a building down into a foundation which might be 100 or 120 useful life, rather than taking everything at 39.5, for example, which is mainly for tax purposes to create an incentive to develop. The work that PriceWaterhouse Coopers has done is to try to develop useful lives that coincide with actual physical depreciation, as opposed to the IRS useful live for accounting and tax purposes.

Mr. Hardigg pointed to the advantage of the efficiency of using scheduled physical depreciation allowing both sides a level of predictability and comfort to approach debt arrangements with minimal risks to both parties, as the private sector is more able to make these investments than the Park Service.

Mr. O'Connell asked why there couldn't be an established value before the prospectus goes out and Ms. Orlando responded that there could be.

Ms. Fleming had a concern about sustainable design practices and the efforts being made in that area. In order to make sure the depreciation schedules are balanced, she thought that each facility would need to be evaluated on its own.

Mr. Ring reiterated that the whole concept from the investment side, is having a clear definition at the time the Park Service goes out for a contract over what the owner's responsibilities are going to be over the term of that contract. In addition, the owner is going to finance those responsibilities, whether it be using their own funds, incurring debt by asking a concessioner to invest, and dealing with unforeseen events at least as a certain hedge against uncertainty, but having a clear sense of how that is going to happen and knowing whether or not that is economically viable. There is an agreement up front on the value of the investment by the concessioner and how it will depreciate, yet its value will be at the end of the contract.

Board Member Eyster summarized how beneficial it is to lay some sort of an arrangement out that both the concessioner and the Park Service can be clear about what the requirements will be, such as, what the investment is going to be, what the additional investments will be over the period of time, how that investment will grow with CPI, how that investment will decrease by a physical depreciation schedule, and to come up with an LSI at the end that everybody can agree on, which will be very important when the Park Service negotiates contracts. This is the way it is done in the private sector.

In response to Mr. Renfro’s question Board Member Eyster explained that when the Park Service does the franchise fee analysis, they take a look at what the private sector market rates are for returns on investment of similar types of businesses. For example it might be an IRR of 13 percent. The park Service will lay out ten years of operating projections with our revenues and our expenses, as well as a requirement on the cost of capital at, for example, 14 percent. It may vary a little depending upon whether there are premiums or risk discounts for that particular location. If there are additional risks an additional point may be assigned. If the net present value is positive, it means the return is higher than 15, or negative, lower, then the adjustment that is made, the variable that comes up, is the franchise fee. The Park Service will target and plug everything in, determining what the franchise fee would be, to give the 15 percent return. The goal is to maintain the assets for the park visitor and, secondly, to give a fair return, then what is left over is the franchise fee. The guest gets the first shot, then the concessioner, then the Park Service is third in line; that is how the franchise fee that goes in the prospectus is determined. The Park Services' obligation, because the concessioner is providing the capital, is to provide them with a market rate of return, that is fair based on the risk-free rate and the risk premium that goes into that type of operation and that specific location.

Board Member Eyster explained that the reason the cost of capital is higher is because if it were funded on an open market the money would be borrowed at maybe eight or nine percent. But the Park Service is borrowing it from the concessioners, paying a 14 or 15 percent return, financing through LSI. There needs to be a debt and equity return on the investment.

Mr. Cornelssen clarified that the cost of capital is the Park Services' exact return on investment, the cost of the LSI at a market rate of return.

Board Member Eyster further explained that for larger projects a management fee will be built in, a portion of which is an additional operating term. The Park Service wants to quantify this and put it into the total return to the concessioner, so there will be a return of capital, and an operating return.

With regard to depreciation, Board Member Eyster stated that the formula is to take the beginning LSI, add additional LSI, inflate the beginning plus additional by CPI on an annual basis, and then deduct the depreciation, but using useful lives for physical depreciation, not accounting depreciation.

Mr. Cornelssen stated a warranty and bond is, upon completion of a construction project, something that the concessioner would secure. It is some kind of a warranty/guarantee of work, such that if five years into the new life there is a failure or problem, that makes it possible to go back to the contractors and tell them it was something they should have taken care of. There has been some concern on really large projects to try to get a complete bond or guaranty/warranty for the entire project, yet it should be dealt with on a case by case basis.

Board Member Eyster pointed out the second paragraph where it says “expected life” as opposed to “accounting life.” He explained that the documents listed look at useful lives from a physical depreciation standpoint which, stretches out the useful life and minimizes the depreciation expense each year. The depreciation should be a small part of the LSI total component.

Mr. Cornelssen explained that the Park Service probably uses the Uniform Act to break down LSI into its major elements, such as, foundation, roof, super structure and interior construction, which are all ASA standards. There would be a separate schedule for each component.

The idea behind trend maintenance is that a contractor, architect or engineer can say, component by component what the preventative maintenance plan should be for that asset, and to define this as much as can be done, up front, so there are no problems later on. Then there could be some sort of review once a year to see if the concessioner is actually doing the preventative maintenance; then if for example, all the PM’s were done on a roof and it still failed, it would be a fair negotiation and resolution.

Mr. Tedder further clarified that if, for example, at the end of 15 or 20 years, nothing was done to the interior finishes, it would be a value of zero to the concessioner, yet typically interior finishes are covered under the maintenance reserve account. Furthermore, if it is not covered under the maintenance reserve one must replace the carpet twice during that period, then there would still be the leasehold surrender interest at the value of the replacement of that carpet.

Mr. Hardigg articulated that there has to be an appraisal done on the physical depreciation at the end of a contract so there is an estimate for the future CFIP on whether there is deferred maintenance, but an appraisal will not be done on each individual scheduled item.

Mr. Cornelssen further explained that it is setting up a balance sheet with each building and component and being able to define the depreciation on a physical basis

He emphasized the importance for preventative maintenance because if it is not done then it shortens the useful life of the item, yet if the concessioner can extend the life of an item, there should be a financial benefit. But if for example, a roof fails due to extraneous situations, and may not be covered by insurance, there has to be some negotiation or at least discussion of why it failed earlier.

Mr. Fay pointed out that with agreement on the worth of an asset, this would eliminate the clause of the law and the arbitration option at the end.

Mr.Cornelssen suggested that one way of accomplishing that would be a comparison of balance sheets between the concessioner and the Park Service.

Mr. Hardigg explained that would work if the current contract states there is that ability, but these changes are forward looking. Ms. Orlando explained that the proposal does not require a change in the law, but it will require the regulations and future contracts to be re-written.

Mr. Renfro thought everyone on the committee should be commended. He voiced concern regarding the reconsideration of investment trends.

Mr. Cornelssen reminded everyone that this could result in changed franchise fees.He clarified, in response to a question, that the Preventative Maintenance Plan is being proposed so there is an agreement as to what the Preventative Maintenance Plan should be, adjusted to that locale and when something happens no none can point fingers.

Mr. Renfro’s main concern was that a concessioner could pass the Preventative maintenance audit every year, then something happens to an asset, and the concessioner may still be responsible for the repair with, for example, three years left on the contract for not doing the preventative maintenance correctly.

A further discussion followed on this subject.

Board Member Eyster question stated that the review of the franchise fee would not occur on a regular basis, but would be done in the prospectus. Mr. Cornelssen further elaborated that the extraordinary unplanned events could not be routine and there may be an opportunity to revisit the franchise fee if the funds were not available.

Ms. Behrman mentioned the importance of environmental issues and sustainable design in relation to setting LSI levels and depreciation so that initial increased LSI costs because of an increased criteria are considered.

Board Member Eyster suggested that the working group's point of view be taken into consideration, as well as what was discussed today, to blend it into the working paper, and then move the working paper to the Board with a recommendation that the Park Service move forward to initiate the changes and mirror what is agreed upon today, with additional comments.

Ms. Orlando stated that if the Board wants to entertain further comments or deliberations on this issue, it sets the whole process back in terms of time because there are a lot of other steps that need to take place. There was an interest in moving after this Board meeting and beginning to craft some language. She also mentioned that it would move forward into a public comment period. The Boards input should be received before making formal recommendations to the Park Service in the form of rule making.

Chair Naille proposed taking written comments up to two weeks from today's date. The working group can discuss it verbally by phone as to input on that, make a final recommendation to the Board in a conference call and that the meeting should result in a consensus by the Board on the working group's final findings in two weeks and the Board will then make a positive recommendation at that point in time.

MOTION: Board Member Norman moved, seconded by Board Member Eyster to adopt Chair Naille's proposal to make a recommendation, followed by possible adjustments by the working group. The motion carried unanimously.

Board Member Eyster commented that the useful lives that must be used are the useful lives for physical depreciation, not a calendar year depreciation.

In response to Mr. Renfro's question, Mr. Cornelssen reiterated that before one makes an investment, there is a best guess determination that is made on the remaining useful life of a structure to be able to allocate the LSI and to set depreciation to a schedule, that would be readjusted.

Regional activities

Ms. Orlando proceeded to discuss regional activities, highlighting activities at the Washington level. She mentioned that significant strides have been made regarding contracting, including completing the annual report of the concession program within the next couple of months. Other issues she has been working on are the process of renewing concession contracts - down to 173 from about 420-plus expired contracts; larger contracts in various processes of development are Dry Tortugas, Echo Bay, Overton Beach at Lake Mead, Powell Bay at Lake Mead, Grand Teton Lodge, Signal Mountain at Grand Teton, Claylock at Olympic, Mesa Verde, Death Valley, Virgin Islands, Pishka, Wauwepa (phon) at Glenn Canyon, and Xanterra at Yellowstone. Just completed is the review on Carlsbad Caverns, Fire Island.

Ms. Orlando reminded everybody that Director’s Orders have been out for public comment and are posted on the Park Service website. Public comment is solicited. The environmental systems, 13A, has closed and any further comments on that should be directed to Wendy Behrman fairly quickly for possible inclusion.

Recently there was a Director’s Order for civic engagement and public involvement that the director feels very strongly about, and the workgroups have exemplified the intent of that particular Director’s Order No 75A, as well as the Director’s Order for Concessions. Ms. Orlando reported to have completed the last policy review. These will be put out for public comment and the Advisory Board will get a copy. She wanted to make sure to include some of the dialog from the last two days. This is a public comment period and written comments will be welcomed.

Ms. Orlando next reported on the implementation of competitive market for retail merchandise for the ‘03 season. Because the concessioners got the information late, many of them had already implemented their ‘03 prices, so there was not a hundred percent participation across the Board, but about 25 major parks participated in the program. The preliminary results indicate that there were no complaints from the visitors nor from the concessioners. Each of the parks’ concessioners conducted their own research for the prices. Basically, about 90 percent of the established prices were in line with the local community. So all in all, the project so far is a success. When the guidance went out about a year ago it was with the understanding to pilot this for two years before determining what the policy direction will be. Feedback is looking positive so far. There were basically no significant differences in prices than in the previous seasons in terms of how they were applied.

With regard to the core menu, Dee Hightower is going to give an extensive presentation. That has been in place. One of the overriding concerns prior to implementing core menu was the time it took for rate approvals, and the contracts that have reported back that are using core menu have reported a decrease of between four to fifteen days for receiving rate approval. A couple of years ago concessioners were quite concerned about the amount of time it was taking to get their rate approvals done.

There were still five areas identified for the Park Service to focus on in terms of improvements; continue to identify the types of food service operation best suited for the core menu program and process; work on the guidance; identify where the core menu might not have been communicated to the field; the SERA task force standards evaluation and rate approval task force are still working on their projects; and classification. Focus group meetings were scheduled in three different cities, and Steve Lebel attended the focus group meeting in Washington D.C.

Mr. Lebel reported that three different market segments were examined — seniors, folks with families, and then kind of an open sort of group, and three different responses. The results were mixed, but the lodging generated three different results. The seniors' expectations were less than those with the folks with families. Folks with families looked for more amenities, televisions, whereas the seniors were more or less happy with the way things currently exist. Although there were a number of different comments that came out of it, though, it was reassuring that the way of doing business now is acceptable.

Ms. Orlando said that a final report will be available at the next Board meeting and at the November meeting with the SERA group. At that time the group will review the recommendations that are in the final report and determine what further action needs toe taken.

In terms of outlining the various classifications, field testing was done this past summer as well, and a full report will be forthcoming.

Another ‘How to do business’ course co-sponsored by NPHA will be held to try and get their members the kinds of information they need to compete for concession contracts. A panel will be convening at the outfitters and guides meeting in early December to go over some issues and concerns that they have. These are attempts at outreach and to get the right information out there, because the misinformation that floats around seems to be the source of a lot of concern and issues and is oftentimes unfounded.

A position description is out for an asset manager position. That position will be based in Washington D.C. There will be advertising for the equivalent of a CFO in the

Concession program that will also be based on Washington D.C.

Update from Chiefs

Mr. Benedetti gave the Board an update on damage inflicted by Hurricane Isabel. Most damage was minor, but at Morris Marina and Willis Campground, all buildings were damaged and/or destroyed, as was the infrastructure which included water and septic systems. Good maintenance people are up there. The 2004 season starts in March, and he felt comfortable that most operations will be open by the beginning of the 2004 season.

Cape Hatteras also incurred severe damage. The three fishing piers that provide food, gifts, fishing and refreshments all suffered damage. It is anticipated these will be up and running in early 2004.

Mr. Benedetti reported he was currently working on a prospectus with PriceWaterhouse. One is Pishka Inn, which includes lodging, food, beverage, retail gift shop and general store. He was excited about having the prospectus out and thought the new contract will provide good service in Blue Ridge.

The prospectus for Virgin Islands National Park is anticipated to be completed and advertised in December. This campground services, food and beverage, retail, water sports.

The prospectus for Dry Tortugas will be available in January or February, and obviously that’s going to include ferry transportation from Key West, an interpretive program, food and beverage service.

Mr. Benedetti reported working on four new concessions in partnerships. One is Fort Caroline for water tours, merchandise and limited food and beverage in partnership between Jacksonville, City of Jacksonville, State of Florida and the National Park Service.

The management plan as well as the commercial service plan for Virgin Islands has been completed. The final phase of a general management plan amendment for Fort Sumter National Monument is near completion. By early fall of 2004 there should be a new contract in place.

Upon inquiry by Board Member Voorhees, Mr. Benedetti provided details on Hinkley Plantation Park.

Responding to Board Member Sakiestewa inquiry into the visitor’s center for the Dry Tortugas Mr. Benedetti provided further details.

Mr. Ring added that there is a small visitor interpretive area at Fort Jefferson with a small cooperative association connected to it. That has been in place for years, and discussions were held in recent years with the establishment of the National Sanctuary in cooperation with the state to have a joint visitor’s center by the Park Service and Fish and Wildlife Service that would be located in surplus facilities right down at the main dock right next to where cruise ships come and book.

Board Member Sakiestewa expressed concern for the limited visitors capacity of Dry Tortugas and the need to preserve and protect this. She suggested erecting a center at Key West along the lines of the Monterey Bay Aquarium that gets a 1.8 million visitors a year. This would afford the potential of remote viewing and school groups using remote viewing and underwater remote viewing.

Mr. Ring explained that the plan is to utilize several thousand square feet of existing space that is being renovated into an interagency visitor’s center that the Park Service will be a part of, into which will go exhibits on all of the different areas. The visitation will be pretty substantial right at the outset. It is located at Key West, right at the city dock where the cruise ships come in, so there is an expectation of substantial visitation to a pretty well-developed visitor’s center at the outset.

Board Member Voorhees inquired into the difficult care and capacity issues at Fort Jefferson and Mr. Benedetti explained that only a limited number is allowed to go out to the island.

Mr. Ring explained that no matter what the demand is, the current plan does set capacity limits on how many people can go out to Fort Jefferson. The proposed visitors center there in Key West is for giving cruise ship passengers a chance to learn about Fort Jefferson, and there is a sister fort that the state has, Fort Zachary Taylor, which is literally within a short walk. The interpretive exhibits will be able to tell the story that they are not otherwise able to see because they’re not going to have the time to go there. The cruise ship visitors to Key West are marginally going to be served through this facility, and others can come to the Keys within a limited period of time and have an option of learning about it or scheduling one of the slots on the ferry or the air service to go out there.

The visitation at Dry Tortugas went from 26,000 a year in 1991 to 90,000 in 1997, and that is one of the reasons that triggered the management plan and commercial services plan.

Sandy Poole from the Midwest region reported the release of a PriceWaterhouseCooper $3 million contract at Mount Rushmore on July 7th. The solicitation period for that was to close November 4th. A site visit at the park was held on September 10th. The solicitation period was extended to December 16th. About 79 questions were received from various concessioners. Those were released yesterday morning signed by the regional director to all that requested a copy of the prospectus, which is about 33 companies. That solicitation now is December 16th.

The panel that was just concluded on Friday was for another category I contract at Hot Springs National Park. I is for the observation tower and gift shop, a 216-foot tower that has a gift shop attached to that. That panel closed on Friday and hopefully a contract will be awarded there within the next 30 days or so. There are a lot of issues that come with that, but that is the projected time frame on that.

A panel was held three weeks ago on the seaplane prospectus for a ten-year category III contract to fly out and transport visitors to the park. The solicitation writeup is at the solicitors and that contract will be awarded sometime within the next ten days.

There will be another panel in two weeks for a category II contract at the Ozarks, where there are 18 category III contracts and 5 category II contracts. At Hot Springs we have two other category I's and six leases. Two people are graduating from NAU in December, of the 2.5 people in concessions. There is also a possible new concession specialist.

Judy Jennings stated they have a new regional director, Steve Martin, who came from Grant Teton National Park where he was superintendent. Steve has a concessions background, and so he is aware of issues and problems within the concessions program. He was the chief of concessions at Yellowstone in the early nineties. Has been the superintendent at Denali Gates of the Arctic, and comes from a ranger background.

This past year 85 contracts were completed in the Intermountain Region. Another 40 will probably be completed in the next week, and then another 47 will be done in January. Responding to a solicitation for snowmobile operations in Yellowstone National Park, there were 34 preferred offers. 117 proposals were submitted for those 34 contracts. The winter use plan that just came out is very restrictive and there is still a court case pending that could impact the snowmobile operation overall at Yellowstone, so there is a lot of interest locally in that type of operation.

The 47 outfitters and guides permits in Yellowstone are out. It closes in December and the plan is to panel that in January. Once those contracts are issued it is expected that a huge influx of sale transfers will take place. It appears that a lot of concessioners have been in a hold pattern until they got new contracts to sell their businesses, and that is going to have a major impact, not only for this region, but a lot of regions are having that same issue coming up. So there will be a lot of time, and sale transfers are not easily done. It just seems almost as extensive as a prospectus.

She reported working with the contractors on the big 50 prospectuses. Unfortunately, this results in a high cost and a staffing expectation that she was not sure could be met in most instances. Cindy Orlando and her office and the Washington office has been very supportive in helping address some of those concerns as far as funding goes. Yellowstone, Glacier, Grand Canyon have special accounts, and they don’t have a large amount of money for their franchise fees to address those contracts, to work out with contractors, and that is a major concern.

PriceWaterhouseCoopers has been excellent, they provide a good service. And probably more importantly to the National Park Service they have added a higher level of professionalism into the contracting, resulting in much better prospectuses going out. There is now available better, more complete information and that is due to Price WaterhouseCoopers because they have really improved the level of sophistication on contracting.

Ms. Jennings commended Cindy Orlando for her support and holding the program together. She has changed priorities to meet, provided funding, and the support has been just phenomenal. She related a meeting that was held with the Argentina National Park System. It was one of the best experiences she has ever had and definitely one of the best in her Park Service career of 27 years. She asked the Board to endorse those types of activities, because they are so important for personnel development, and to the visitors. She reported taking a video that had several scenes of national parks and a small child drawing a picture, a sort of feel good type marketing video. These people who didn’t speak English asked to watch it twice, and at the end of the second presentation they all clapped.

Ms. Jennings related that Jim Eyster gave a presentation in Denver three weeks ago now, which was probably another one of the most valuable experiences she had. Jim Eyster’s background is in teaching and his presentation was phenomenal, and everybody that was fortunate enough to be there really benefitted from it. She would like to see that same type of presentation and building on that, again asking the Board to look at that same type of presentation for managers so they will have an understanding how to determine fees, and what is being done with the fees.

She reported on meetings with the general managers at Xanterra at a site with regional and park staff people, providing an opportunity to share ideas, share concerns, and look for consistency in the parks and programs.

Ms. Orlando added that with respect to the Argentine trip her office is talking with the Embassy right now to bring a team of Argentine park professionals over to view and participate in the concession program, both in the field and in the central offices, so the relationship continues and that is a real valuable part of it.

Board Member Weerts asked Ms. Jennings if it was because of the higher quality prospectus that were prepared that fewer questions are received from the people that are opening them and bidding on them, thereby reducing any workload.

Ms. Jennings did not think so, but that they are getting different questions. People are responding differently now because they are asking questions focusing on the more competitive aspects.

Ms. Poole added that it is a more sophisticated prospectus that presents a lot more information, and a lot of the questions are very specific to some of that information.

Mr. O'Connell inquired if Ms. Jennings was receiving bids from people bidding against people that have preferential right of renewal.

Ms. Jennings indicated she did quite a lot.

A discussion followed on this subject.

Kevin Apgar gave a brief overview of the Alaska region, covering 16 national parks. The concession program has about 100 contracts and they have about 350 incidental business permits in any given year. So far, since the passage of the new concession law in 1998, they have awarded 28 new contracts. There are only three category I contracts in Alaska and two of those are with ordered now and the third one is out on the street right now, a prospectus for Glacier Bay. It closes December 1. It is basically a contract for day tour boat services, lodging, food and beverage and some other services associated with the lodge. It is for a 10-year contract and requires a $2.1 million initial investment. Franchise fee is 3 percent and the expected gross receipts are $3.3 to $5 million over the term of the 10-year contract. He was hoping to get interest from the concessioners here.

There have been generally positive results from the concession contracting program. There have been discussions of preferential right of renewal, and, generally many people are competing against incumbents. The competitive process really yields good results.

There are many preferences in Alaska. There is the national renewal preference, and then there is the special legislation in Alaska that gives preferences also for local residents and for Alaska native corporations, native American corporations, all of them are generally anti-competitive. But where competition does come into play there have been some good results. He provided some examples.

He also listed the various prospectuses and proposals received. Mr. Apgar then provided the Board with details of the various Alaskan parks’ activities. He reported that the Denali transportation contract was finally awarded this year. That was their major achievement last year, to get the prospectus out and make a selection, but it actually took quite awhile to get the contract awarded, which happened this past May.

They have also been working on the possessory interest negotiations. There only are three category I contracts and those are ones that include capital improvement on park lands. A leasehold surrender interest is actually being negotiated between Aramark and its partner at

Denali right now. That contract was awarded to a joint venture and it included a native American corporation that had partnered with Aramark, and the two partners now are dickering over what the possessory interest is.

Mr. Apgar reported on a trip he took, spending two weeks in Kamchatka in Russia Far East, and this was a trip paid for by the United Nations Development Program that he was fortunate to go on, and it was a wonderful experience.

Mr. Ditmanson thanked the concession program center and stated he had a number of people help him out with evaluation panels and the process of working through documents, as well as having a great experience with PriceWaterhouse folks. He also reported on the impacts of Hurricane Isabelle.

With regard to concession operations, several significant contracts have been awarded in the last year. Acadia Corporation, food services, hotel operation, Benz Corporation at Cape Cod. A new operation at Colonial, which was an historic structure that is now a food service operation. The Davis Park Ferry at Fire Island. A new facility at Gateway which is a real significant historic restoration project of some of the major hangers out on Floyd Bennett Field. These are huge structures that were really in great disrepair. The service is going to combine the preservation of those structures with the introduction of a major sports complex.

There are a number of new contract they hope to have out on the street in the next few months. Bus tour operations at Acadia, gift shop and tours at Cape Cod. A major merging of two current operations with a new one at Fire Island. There will be a combination of the Sailor's Haven operation and a new development at Barrett Beach so there will be three marine and food service operations at Fire Island under one prospectus.

Food service operations at Gateway. The beach concession at Gateway, which is Sandy Hook, which is the current operation. A small campground operation at Delaware, and a gift shop at Fort McHenry, which is currently an Evelyn Hill operation.

The biggest effort is moving forward on the four largest contracts at Northeast Region, three of which are at Statue of Liberty, which include the current Circle Line Ferry Service operations, Aramark which operates the food service operations at Ellis Island, and Evelyn Hill which operates food service operations at Liberty Island. And two of those, Circle Line and Evelyn Hill already have extensions. Aramark expires in '05. The goal here is that there has been a major change at the Statue of Liberty due to 9/11 as far as how that place operates, what the visitor experience is there, how to deal with all the levels of security that have been applied there probably more so than most other places within the Service. A GMP, commercial services plan is getting underway. The goal is to have a decision in place by the end of calendar year ‘05 so that in ‘06 the prospectuses and offers will be on the street.

The fourth contract, one of the four largest within Northeast Region, is Shenandoah, and that expires at the end of ‘04, and that process is also moving forward, thanks to Price Waterhouse who’s been working on both the Statue of Liberty and the Shenandoah efforts.

Another large aspect in the Northeast Region has been leasing. Cindy’s group conducted a leasing workshop. There are a couple of major leasing projects, one at Sandy Hook at Gateway, which is the Fort Hancock structures. There are a large number of these structures on the historic site that will be turned into a facility of a business center, a number of nonprofit organizations and other entities which will be within those structures.

Another similar type operation at the Highlands Center at Cape Cod, which was another military installation, a large number of buildings, providing a way to bring nonprofit organizations to do educational, artistic and interpretive operations into the park, which ties in with his long cultural history there.

He mentioned that he has a certificate of eligibles for a new chief of concessions in the Northeast Region. That position was advertised in Philadelphia, it is a GS-13/14 position, and he felt hopeful is was going to be filled within the next few weeks. This was advertised both as a promotion internally and through OPM all sources. It ended up that OPM actually did the announcement out of Denver, and they called up and asked if they could provide them with a subject matter expert to help panel the job, and since the concessions program center is in Denver, Wendy Berhman helped out.

Tony Sisko reported that in the Pacific West Region, they did successfully officially open a new leasing project in San Francisco, the Haslet Hotel down on the waterfront that is a 57-year lease with Campton Corporation, Campton Hotel. It was about a $35 million project for them to restore this National Historic Register property, and 50 percent through construction of major fire, basically gutted the whole thing, but the masonry walls were saved as well as some of the internal structures that were historic and his group was able, through the fortunately good insurance underwriter that Campton had and frankly a good lease that dealt with the insurance section, to move through very rapidly and in essence finish the project.

In concession activities, the large category I contracts with the help of Price Waterhouse and within the next two or three months, will be released - marina contracts at Lake Mead, Echo Bay, Overton. Within the next few months Claylock Resort up in Olympic Peninsula and Death Valley contract, which is going to be combining their current two contracts of Stovepipe Wells and Scottish Castle, so those will be coming out shortly of the category one contracts.

Others that the region has worked on that will come out this calendar year more than likely will be the Sole Duck Hot Springs Resort up in Olympic, at Lake Roosevelt a small snack bar at Spring Canyon, the Whiskeytown Marina at Shasta Whiskeytown National Recreation Area in Northern California, a small category three kayaking contract that probably won't be till early next year at Olympic, and those are the immediate ones.

The region has just finally been able to award a ten-year contract for Oregon Caves for the restructured concessioner up there. He went on to describe contracts negotiated with Xanterra. Mr. Sisko mentioned that the Commercial service plan is currently on the street for public comment and thanked Steve Lebel for his assistance.

Steve Lebel noted that concessions in Washington that are dependent on local business for revenues have been very steady. For those that are dependent on tourism their revenues are down about 30 percent since 2001.

The contracting efforts are progressing. He listed the various efforts and mentioned that the region has developed a task order for outsourcing support for the outstanding contracts, all of the outstanding contracts at this point. He anticipate their award sometime during 2004. Also being developed in-house is a prospectus for a small food service concession on Pennsylvania Avenue, and a temporary contract is about 95 percent complete for an existing visitor’s service that came through a land transfer on the Georgetown Waterfront.

They just finished franchise fee reconsideration negotiations with Tour Mobile, and signed a two-year extension to his contract while undergoing an alternative transportation study.

Mr. Lebel said they have conducted pricing training seminars for a number of concessioners. Core menu and competitive market declarations for service-type visitor services have been implemented at many sites. The core menu has been implemented out of National for the small snack bars down there. It's been very successful, the concessioner loves it.

All of the NCR concession staff are either enrolled in or have graduated from Northern Arizona University's concession certification program.

Ms. Orlando remarked that this whole team has accomplished an incredible amount of work with a skeleton of resources. She acknowledged one other person in the room who has helped and she is not really a concession employee, and that's Kim Oshinski. Kim works for the Washington contracting office, but the program has convinced them that it needed a dedicated 100 percent contracting person who was helping on the procurement side for concessions, and so Kim has been instrumental and Ms. Orlando really appreciate having her as part of the team as well.

Additionally, Concessions is funding another solicitor in the solicitor's office who is dedicated to concessions, and that is in the Washington office. This will enable the program to supplement the staffs in ways that until the new law they weren't able to do.

Nick Hardigg referred to the GAO regarding the nonprofits aspect and said he had some great things to report on the nonprofit aspect in that the sandwich Boards are gone that advertised in many places the nonprofit. The history room will be advertised on the bus system. That room will be upgraded, changing its hours, promoting it with signage and other things, and expanding its. It has just been a really good partnership effort to promote one of Xanterra's, probably most historic aspect of their operation there, so that operation is going really well, with expanded hours, some upgrades, and hopefully much better sales in the books that they sell there.

In cooperation with Xanterra there will be an upgrade of some tired facilities on the rim that no one loved, the Thunderbird and Kachina. Not just the renovation but a major upgrade of those facilities to the tune of 1.6 million, and there has been agreement on an adjustment to the comparables that will allow a decent return, so just an example of talking, talking finance, talking security and risk and coming to an agreement so that the visitor can be served better with a nicer range of options for the visitors, so that has been a very positive aspect.

Another positive thing from a sad story is the fact that Xanterra came to discuss their growing concerns regarding safety of new operations this year, and it was agreed together to close operations for six months and to work cooperatively to fix up the trails. Xanterra had to forego income from that profitable side of the operation in order to allow that to happen

Mr. Ring commented that these have been great reports providing the Board with a flavor of the level of activity and the level of progress that is going on. He commended them and the staff on what the concessions program has done on service.

Mr. Ring indicated he will be sending out a product that was just completed, and that is under the President's management agenda there has been a call for workforce planning on the part of all the federal bureaus and agencies to really focus on human capital management. In this light he was proud to say to both the concession partners as well as to the advisory Board, and that is that they are partners in this effort.

The service defined the workforce as everyone who goes to work in a national park to get the mission of the agency done, and then pie charted it and inventoried it, and for most other federal bureaus they listed how many federal employees they have. He listed all the folks that fit that definition, and there were about, sort of normalizing it into full-time equivalence in terms of just raw numbers, about 20,000 FTE's that were Park Service employees. There were somewhere in the range 17,000 FTE's for the concessions that are running, which translates into over 25,000 people. There are equally 125,000 volunteers that contribute several thousand man years each year. There are 11,000 essentially full-time equivalents being contributed through the other contracting that is done around the Service, and major step have been taken in putting a workforce plan together that defines that entire group of folks. He also mentioned that they have identified cooperators as well, and a lot of other partners as well as being the workforce of the National Park Service. Equally that plan lends emphasis to why there is a focus on the concessions program, why it is so important that it be supported, the staffing commitments continue to proceed, the training commitments continue to proceed, and over the next couple of years the service will be looking for ideas on how to fulfill its responsibility to that whole workforce to make sure, A, they know the heart of it; B, they are linked into several communication systems and are talking to each other; that they know what the mission of the agency is and they're oriented to it; they know what is expected of them to get the support they need to get what's expected of them done; and to have a way of finding out how they have been doing. That is as true for a concessioner as it is for a Park Service employee as it is for a volunteer as it is for a contractor, and that that is a major emphasis on the part of the agency and a different way of thinking than ever before. This will be shared with the Board and the agency will be looking for any thoughts or ideas on how to take that forward.

Board Member Voorhees asked how this approach had been received by Interior and Mr. Ring said that shock and awe came to mind. It was rather with a great deal of pleasure on the part of the Departmental leadership, and the shock and awe was coming from sort of the other bureaus and other folks. Typically this task is handed over to the human resources folks, who then sort of spit back "Here’s what we need to do with our employees. So there has been no objection or push-back. If anything, there has been a, "Oh my gosh, how are we going to deal with something this big in scope?" But that is the challenge, not the concern.

Other Business - Advisory Board

1. Reappointment of Board Members

Sherrill Watson reported the Board Members are still sitting and they are waiting for nominations from the director or someone higher. No one has been nominated. Everybody’s term has expired except Ramona’s and Burt Weerts, but they were renewed. Some of those appointments have been up there over a year, trying to be renewed.

Chair Naille announced that all Board members are allowed to serve until a replacement or reappointment has been made.

Mr. Ring observed that in his 30 years of practice associated with the bureau, the appointments to Boards and commissions have made a glacial pace look fast, and whether it is the National Park System Advisory Board or other Boards and commissions, it is taking an extraordinarily long time to work through those processes.

2. Logistics of Next Meeting

Chair Naille announced that the next meeting will be in Washington D.C. It will roughly be the end of February, first part of March, somewhere in there, to coincide with the timing of the National Park hospitality meeting that is scheduled to be held.

3. Agenda Items for next Meeting.

Ms. Orlando indicated she would like to report on the operational side on the core menu and SERA.

Board Member Voorhees proposed the subject of historic leases as they are currently as a topic the Board for a briefing.

4. Discussion of Board's next report to Congress.

Chair Naille indicated the Board is not really required to make a report other than submit what it has done during the last year, and he thanked Phil Voorhees for being the scribe for last year. He did a wonderful job. The Board will incorporate that into this year’s discussion in the minutes. All that is going to go to Congress shortly.

Chair Naille thanked Ms. Orlando and he staff for always setting everything up, especially Sherrill Watson, who does a lot of the behind the scenes work. He also thanked all of the regional chiefs and their multifaceted and highly energetic staffs. Chair Naille especially commended Kurt Cornelssen for his valuable assistance to this Board. He has done a lot to assist Doctor Eyster in this latest workgroup. He helped with running the earlier workgroup with Phil. Not only does he assist the Park Service, which he does far more than he does for the Board, but it helps the Board to understand things too, so a big thank you to PriceWaterhouse and Kurt’s entire team that puts that on.

Special thanks also to the workgroups and the leaders who have worked hard on all of these projects.

Public Comment. There was no public comment.

Meeting Adjourned.

The meeting was adjourned at 3:30 p.m.